



STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL

DONALD W. DOWNES
CHAIRPERSON

THE ENERGY & TECHNOLOGY COMMITTEE

Senate Bill 777: AAC MODIFICATIONS TO THE PURCHASED GAS ADJUSTMENT CLAUSE

February 3, 2009

TESTIMONY OF CHAIRMAN DONALD W. DOWNES

The DPUC supports the passage of this proposal. This proposal modifies the provisions of the DPUC's purchased gas adjustment clause (PGA) statute by: 1) requiring the DPUC to hold a public hearing no less than annually on the PGA in lieu of the current 6-month public hearing requirement, and 2) specifying that the DPUC is required to hold a public hearing on the PGA at anytime if the Office of Consumer Counsel files an application requesting such a hearing.

Background

In general, natural gas customers pay for their fuel through two primary components on their utility bills: a base rate and the purchase gas adjustment clause (PGA). The base rate includes an estimate of fuel prices for the 12 month period following a general rate decision. The PGA adjusts the fuel portion of base rates to reflect the actual fuel costs incurred by the local distribution company (LDC). The PGA can appear on customer bills as a credit if fuel prices have decreased or charge if the fuel costs have increased since the setting of base rates. Every month, the state's three gas distribution companies (Connecticut Natural Gas, Southern Connecticut Gas and Yankee Gas) file with DPUC their proposed PGA for the following month. The DPUC reviews these proposed monthly PGA figures and, if necessary or requested to do so by the Office of Consumer Counsel (OCC), holds an administrative proceeding on these filings. Following DPUC approval, the LDCs charge natural gas customer at the newly adjusted monthly PGA level.

Basis for Proposed Change

The existing provisions for the PGA require semi-annual proceedings. These semi-annual periods covered do not reflect actual natural gas industry practices. Rather, natural gas industry fuel planning is annual, normally November 1 through October 31. Fuel used in the winter is more expensive, and includes fuel "saved up" from the previous summer. Summer fuel is less expensive and is "put aside" for use the following winter. Therefore, no six-month period can accurately reconcile the planning

and purchase of fuel and the period in which it is consumed or recovered. Only an annual PGA review can accurately match the gas industry operating practices and the manner in which fuel is bought, consumed, and costs recovered from ratepayers. Under the current six-month investigation parts of the review are redundant because much of the earlier period's information must be reviewed again. As a result, DPUC staff, LDCs, and other participants must dedicate significant resources twice a year to review fuel costs and the recovery of these costs. The DPUC believes that by allowing an annual review great administrative efficiency can be attained while improving accuracy and minimizing the mismatch of data review and cost recovery. It is also

important to note, that by issuing a formal decision in the first semi-annual investigation, the DPUC is prevented from revisiting approved PGAs from an earlier period even if a review of the full annual gas industry operating cycle would suggest an adjustment should have been made.

As a result of the proposed change, the DPUC recognizes that circumstances will arise that will justify a hearing on the PGA prior to the annual review proceeding. To address this issue, this proposal modifies the current statute to specify that the DPUC is required to hold a public hearing on the PGA at anytime if the Office of Consumer Counsel files an application requesting that we do so.

Through these various proposed changes, the DPUC seeks to modify the existing statute in the interest of improving the annual PGA process for the DPUC, the gas companies, and the State's natural gas customers.